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ABSTRACT

This report discusses state general fund budgets in fiscal year 1992, tax actions in 1992, and the budget outlook for FY 1993. State government's fiscal outlook is as clouded as the national economy's, and conspicuous improvement is not expected in FY 1993. Year-end balances are nearly nonexistent for most states and will not recover significantly in FY 1993. Also, legislators have avoided taxes far more successfully than in 1991; substantial budget cuts, a low rate of state expenditure growth, and major tax cuts in New Jersey and Pennsylvania held the net national tax increase to 1.4 percent of FY 1991 collections (down from 5.4 percent in 1991). Expenditures for the 40 reporting states will grow by 4.8 percent in FY 1993, continuing a long trend of reduced growth rates for state general fund budgets. At least 12 states made broad-based or across-the-board budget cuts to control spending growth in FY 1993. Aid to local governments, salary and benefit costs, and health care costs were targeted for cuts. State general revenue growth for FY 1992 was 4.2 percent above FY 1991 collections and projected at 7.1 percent for FY 1993. Of 47 reporting states, 24 enacted net tax increases for FY 1993, 7 reported net cuts, and 16 reported no change; total revenue increase was $5.1 billion. Additionally, Aid to Families with Dependent Children and Medicaid costs continued to grow, and most states experienced slow employment growth. State finances are at a very low point. (MLH)

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STATE BUDGET ACTIONS 1992

STATE TAX ACTIONS 1992

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STATE BUDGET AND TAX ACTIONS 1992

Preliminary Report

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EXECUTIVE SUMMARY

This report provides an account of state general fund budgets in Fiscal Year 1992 (FY1992), tax actions in 1992, and the budget outlook for FY1993. This is a preliminary version of the more detailed reports NCSL will publish later: *State Tax Actions in 1992* in September 1992 and *State Budget Actions in 1992* in October 1992. The information in this report was provided to NCSL by the legislative fiscal officers in July 1992.

State governments' fiscal outlook is as clouded as that of the national economy. Legislative fiscal officers do not expect conspicuous improvement in state finances in the coming year. The major findings of this report are these:

- Year-end balances, a thermometer for measuring state fiscal health, are nearly non-existent for most states and will not recover significantly in FY1993.
- Legislators have avoided tax increases far more successfully in 1992 than in 1991. Substantial budget cuts, a low rate of state expenditure growth, and major tax cuts in New Jersey and Pennsylvania held the net national tax increase to 1.4 percent of FY1991 collections (down from 5.4 percent in 1991).
- Expenditures for the 40 reporting states will grow by 4.8 percent in FY1993, continuing a long trend of reduced growth rates for state general fund budgets.
- At least 12 states made broad-based or across-the-board budget cuts to control spending growth in FY1993. Aid to local governments, salary and benefit costs, and health care costs have been particular targets for cuts.

Revenues. State general revenue growth for FY1992 was 4.2 percent above FY1991 collections and for FY1993 is expected to be 7.1 percent above this year's level, largely due to inflation and revenue enactments. Two-thirds of the reporting states expect revenue to grow by less than the average rate of 7.1 percent projected for FY1992.

State Revenue Increases in 1992. Of the 47 states reporting tax information, 24 enacted net tax increases for FY1993, seven reported net cuts, and 16 reported no change. Net tax increases were $4.3 billion. Non-tax revenues increased the total by $800 million, for a total revenue increase of $5.1 billion.

State Expenditure Growth for FY1993. AFDC and Medicaid costs grew faster than expected in FY1992, but not as fast as they have grown in recent years. FY1993 appropriations reflect the reduced rate of growth in government spending. But just as in other recent years, spending for K-12 education, corrections, AFDC, and Medicaid continues to require a larger portion of general funds each year. This and the need to hold down tax increases led to substantial budget cuts in other areas of state government, as well as cuts in sensitive areas like K-12 education and Medicaid.

State finances are at a very low point. Slow employment growth in most states indicates that economic recovery will continue to be slow. States have tended to respond with budget cuts and have limited tax increases to a much lower level than in 1990 and 1991. As revenue forecasts show, state officials do not expect significant recovery in FY1993.

INTRODUCTION

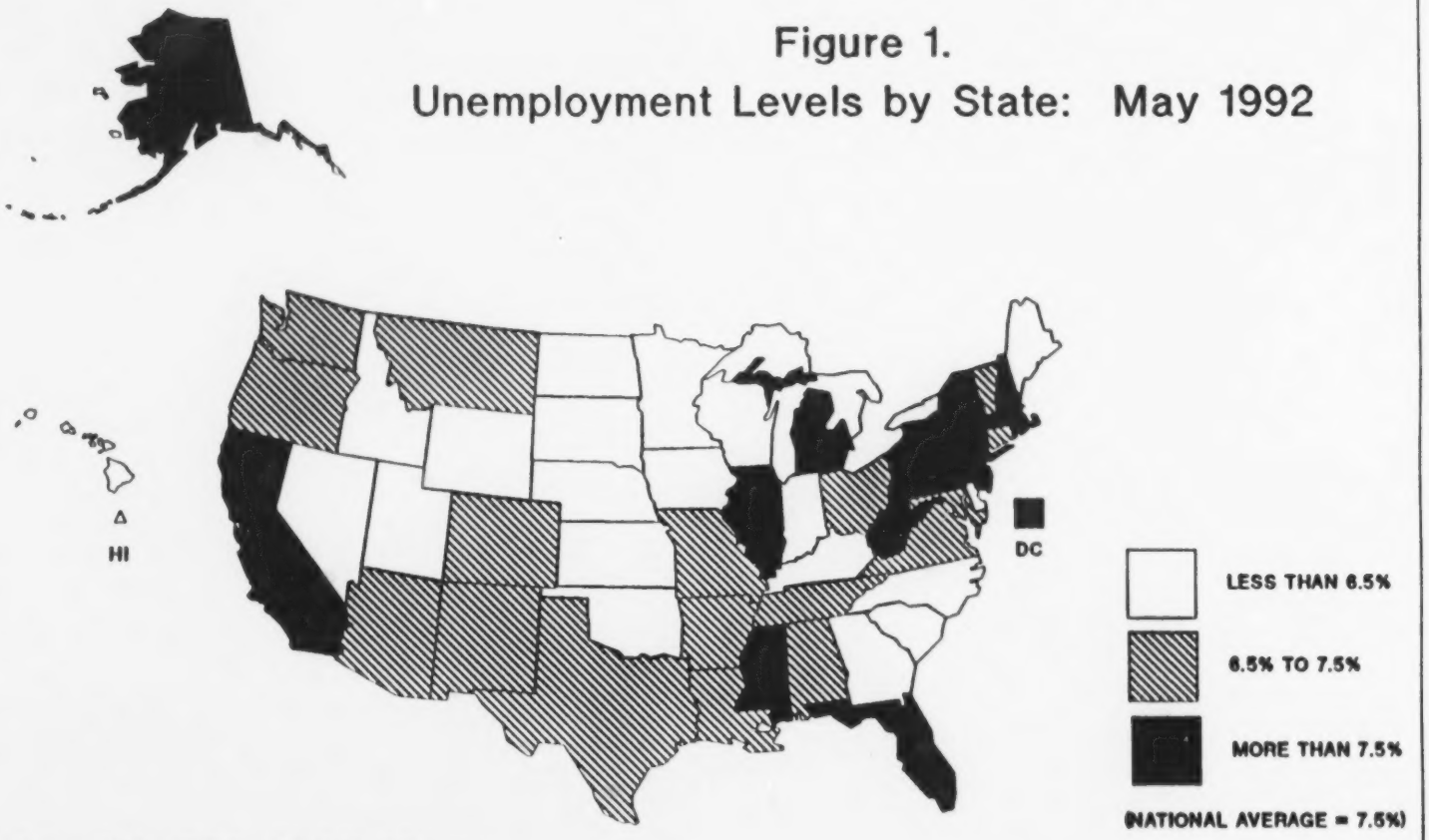
This report provides an account of state general fund budgets in Fiscal Year 1992 (FY1992), tax actions in 1992, and the budget outlook for FY1993. This is a preliminary version of the more detailed reports NCSL will publish later: *State Tax Actions in 1992* in September 1992 and *State Budget Actions in 1992* in October 1992. These will compose NCSL's eleventh annual report on state fiscal conditions.

The condition of state general revenue funds is central to this report because most state spending comes from the general fund; other state funds are designated for particular purposes, making the general fund the center of legislative budgeting negotiations and decisions; data on trust funds and special funds are not available so early in the state fiscal year as data on the general fund; and the health of state general funds is an accurate indicator of the fiscal condition of the states.

This report also discusses the role of earmarked revenue sources in funding state aid for elementary and secondary education (K-12 education) because of their increasing importance. In discussing Medicaid funding, it includes issue of provider taxes, which usually are not made part of state general funds. Most important, the revenue sections of this report include all significant revenue changes the states made in 1992, not just those affecting the state general fund.

This report is the work of NCSL's Fiscal Affairs Program staff in Denver. Karen Sear prepared this report for publication.

Figure 1.
Unemployment Levels by State: May 1992



Source: Bureau of Labor Statistics, U.S. Dept. of Commerce

PART 1: State General Fund Budgets in FY1992

State governments' fiscal outlook is as clouded as that of the national economy. A quick measure of the outlook comes from unemployment figures. Figure 1 shows that unemployment stood at relatively high levels in May 1992, especially in the larger states. In 34 states, including most of the large states, unemployment grew from May 1991 to May 1992.[1] National figures indicate unemployment increased further from May to June 1992, not just because of people re-entering the labor force but because the number of employed people fell.

Since the national economy is the greatest influence on the fiscal well-being of state governments, these unemployment numbers add to the bad news that has characterized state finances throughout FY1992. Legislative fiscal officers do not expect conspicuous improvement in state finances in the coming year. The details in this report, provided by legislative fiscal officers, show the following:

- Year-end balances, a thermometer for measuring state fiscal health, are nearly non-existent for most states and will not recover significantly in FY1993.[2]
- State revenue growth in FY1993 will come almost entirely from tax and fee increases and inflation. Forecasters expect real economic growth to be negligible.
- Tax increases enacted in 1992 will provide $4.3 billion in new revenue for the states in FY1993. At 1.4 percent of previous-year tax collections, this is a much smaller increase than occurred in 1991 when the comparable increases were $16.2 billion and 5.4 percent.[3]
- States have cut budgets vigorously, demonstrating the seriousness of their fiscal plight.

TOTAL STATE BALANCES

Total state year-end balances are significant indicators of state fiscal conditions. This report has traditionally viewed 5 percent of general fund expenditures as a prudent level of reserve, although state needs differ depending upon economic conditions, the stability of state revenues, and state cash management practices. The balance is intended to protect against unforeseen downturns in revenue collections, unexpected growth in entitlement programs, or other emergencies. This report includes general fund reserves and the amounts in budget stabilization funds (often called *rainy-day funds*) in the figures for total state balances.

Most states have seen their reserves vanish in the course of FY1992, and they expect little recovery in FY1993. By any measure, reserves are inadequate. Their inadequacy shows state fiscal weakness more clearly than any other single number can.

- Reporting states' reserves fell from 2.6 percent of appropriations at the beginning of FY1991 to 1.4 percent at the end of FY1992.

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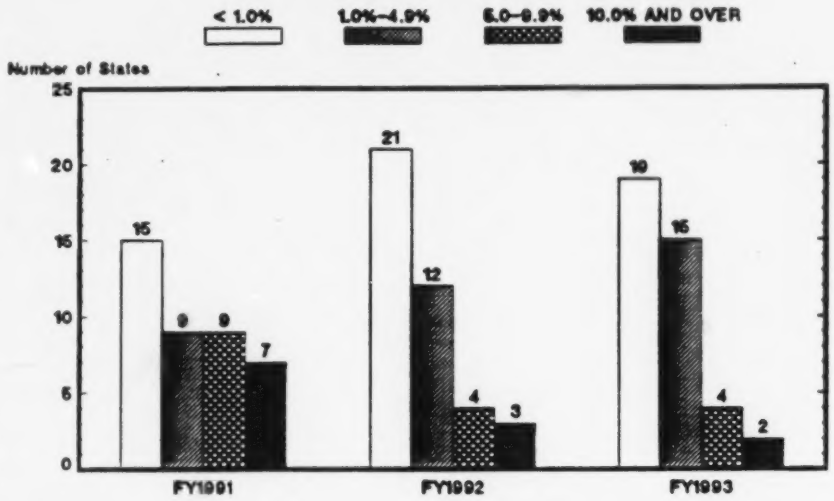
[1] Unemployment rates increased from May 1991 to May 1992 in all states except Arkansas, Delaware, Idaho, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, Tennessee, and Wisconsin.

[2] State budget information in this report is based on 40 states. Not reporting on state budget actions are California, Delaware, District of Columbia, Illinois, Massachusetts, Michigan, Missouri, New Jersey, North Carolina, Pennsylvania, Puerto Rico, and Rhode Island.

[3] Information in this report on state tax cuts and increases is based on data from 46 states and Puerto Rico. Not reporting are California, Delaware, the District of Columbia, Georgia, and Massachusetts.

Figure 2. Total State Year-End Balances As a Percentage of General Fund Expenditures



Data from 40 states
Source: NCSL survey of legislative fiscal officers, July 1992.

- Reserves are expected to recover only to 1.7 percent of expenditures by the end of FY1993.
- The slight average improvement in reserves expected in FY1993 does not indicate that things will get better for most states because reserves are concentrated in a few of the reporting states.

Figure 2 summarizes the size and distribution of balances projected for the end of FY1993 and for recent years. It shows that among the 40 reporting states, the number with year-end balances below 1 percent grew from 15 to 21 during FY1992, and will remain at 19 at the end of FY1993. At the end of FY1991, 16 states had reserves of 5 percent or more. Only seven do now, and that number will fall to six by the end of FY1993.

State balances are more concentrated than Figure 2 shows. At the end of FY1992, five states–Hawaii, Indiana, Minnesota, Nebraska, and Oregon–held 60 percent of the $2.6 billion the 40 reporting states counted as reserves. The distribution will improve a little during FY1993 but even so at the end of FY1993 the five states with the largest amounts of reserves–Alaska, Kansas, Indiana, Minnesota, and Oklahoma–will hold 52 percent of the total. It is noteworthy that the largest states among those reporting–New York, Florida, and Texas–are *not* among those with the larges reserves.

State finances are in even worse shape than these figures show. The 10 states that have not yet reported to NCSL include California, Illinois, Massachusetts, Michigan, and Pennsylvania which have been experiencing fiscal problems ranging from serious to disastrous. California will carry an FY1992 deficit of about $4 billion into FY1993, an amount that exceeds the total

reserves of all the states covered in this report. Illinois will need to use $890 million in FY1993 revenue collections to pay bills postponed from FY1992.

Thus state finances are at a very low point. Rising unemployment in most states indicates that economic recovery will continue to be slow. States have tended to respond with budget cuts and have limited tax increases to a much lower level than in 1990 and 1991. As revenue forecasts show, state officials do not expect significant recovery in FY1993.

THE REVENUE AND EXPENDITURE OUTLOOK

Reporting states expect general revenue collections for FY1993 to grow by 7.1 percent above the FY1992 level and for expenditures to grow by 4.8 percent. States that have not enacted significant revenue increases expect revenue growth slightly above the anticipated inflation level of 3.2 percent. A summary of state projections for revenue and expenditure changes appears in Table 1.

Revenues. State general revenue growth for FY1992 was 4.2 percent above FY1991 collections. Reporting states found that revenues came in close to target, about one-half of 1 percent or $1.2 billion below expectations. These year-end figures probably reflect adjustments to general revenue in the interest of balancing budgets as state laws require, such as supplementing collections with reserves from rainy-day funds or other state sources and sale of assets. These year-end figures do not reflect the states' fiscal distress in FY1992 as clearly as NCSL's *State Budget Updates* issued in the course of FY1992.

Twenty-seven states expect revenue to grow by less than the average rate of 7.1 percent projected for FY1993. Southeastern states have the most optimistic outlook for revenue growth, in part because of revenue increases enacted in Alabama, Florida, Mississippi, Tennessee, and West Virginia. New England, Middle Atlantic, Great Lakes, and Plains states expect revenue growth close to the rate of inflation except for the impact of 1992 actions to raise additional taxes or other revenues.

Tax and other revenue increases for FY1993 will total around $5.6 billion for the 40 states whose budgets are discussed in this report. Adding in the remaining seven governments for which tax and other revenue information is now available brings the total revenue increase to $6.5 billion. That figure does not include any increase for California. When the effect of tax cuts in New Jersey ($618 million) and Pennsylvania ($469 million) is included, the net national revenue increase falls to about $5.4 billion.

Tax increases and inflation will account for almost all growth in state general revenue for the 40 reporting states; state fiscal officers assume that incremental revenue growth as a result of real growth in the national economy will be very low in FY1993. Little expectation of growth and the low balances states are carrying into FY1993 mean that states' belt-tightening will continue.

Table 1.
SUMMARY OF PROJECTED CHANGES IN GENERAL FUND REVENUES AND APPROPRIATIONS, FY1992 TO FY1993

	Number of States	
Rate of Change	*Revenue Changes*	*Appropriation Changes*
More than 10.0 percent	6	4
8.1 to 10.0 percent	5	4
6.1 to 8.0 percent	6	5
4.1 to 6.0 percent	13	9
0.1 percent to 4.0 percent	8	14
0.0 percent or shrinkage	2	4
Number of States Reporting	40	40

Source: NCSL survey of legislative fiscal officers, July 1992.

Expenditures. Reporting states increased their general fund appropriations for FY1993 by 4.8 percent above their expenditures for FY1992. Expenditures grew by 4.9 percent in FY1992. The small reduction in the rate of growth is probably deceptive because states have tended to shift Medicaid funding and, to a smaller extent, funding for K-12 education away from general funds to earmarked funding sources.

The reporting states' expenditures in FY1992 grew slightly faster than originally expected, with almost all of the increase attributable to Medicaid and AFDC--entitlement programs whose costs in part are driven by the state of the economy. For the first time in recent years, states actually spent less on corrections than they had budgeted. Total general fund expenditures for the year exceeded original appropriations by 1.6 percent, which helps explain why state reserves shrank during the fiscal year.

One-third of the reporting states plan expenditure growth at or below the inflation rate (3.3 percent) for FY1993. No clear regional pattern emerges. Three states--Alaska, Washington, and Wyoming--have cut FY1993 general fund appropriations below the FY1992 level of spending.

PART 2: Tax Policy

One of the goals for state legislators in their 1992 sessions was to avoid tax increases. With the exception of a few states, most legislators succeeded: the aggregate net tax increase for FY1993 was $4.3 billion. This amount is less than one-third of the increase enacted in 1991. Figure 3 shows the pattern of state tax increases in 1992.

Of the 47 jurisdictions reporting tax information, 24 enacted net tax increases for FY1993, seven reported net tax cuts, and 16 reported no change. The national total of $4.3 billion represents 1.4 percent of 1991 tax collections.[4]

The aggregate tax increase could grow after this report is released. California voters will consider a ballot measure in November (the Robin Hood Proposition) to increase taxes on business property, business income, and high-income tax payers. It would produce $340 million for the state in FY1993 and somewhere between $1.1 billion and $2.1 billion in FY1994. The Montana Legislature is meeting in a special session to consider budget and tax issues. Oklahoma voters will decide in November if two new tax provisions will be implemented. If both measures pass the increase would be $60 million.

TAX CHANGES BY STATE

Most states avoided substantial tax increases, partly because of last year's large and widespread increases. In 1992, only seven states increased taxes by more than 5 percent, compared to 12 last year. Four of the largest increases for FY1993 are in the Southeast. The largest increase is in Tennessee whose new taxes are equal to 19.9 percent of 1991 collections. A significant portion of this increase is due to taxes on health care providers.

Two Plains states also raised taxes substantially. Kansas enacted an increase of 12.4 percent of 1991 collections that is earmarked almost entirely for K-12 education. Iowa's increase was 9 percent of 1991 collections. Maryland, which had avoided raising taxes in the past few years as neighboring states raised them substantially, also raised taxes by more than 5 percent of 1991 collections. New York, which raised taxes by almost $1.5 billion, did not quite reach the 5 percent threshold.

Of the other states raising taxes for FY1993, nine increased them by less than 1 percent of 1991 collections. Most of the other increases ranged from 2 percent to 3 percent of 1991 collections.

Seven states enacted net tax cuts. The largest were in New Jersey (5.2 percent of 1991 collections) and Pennsylvania (3.5 percent of 1991 collections). In New Jersey, the Legislature repealed a 1 cent increase in the sales tax that was enacted in 1991. Although the governor vetoed the reduction, the legislature overrode his veto. In Pennsylvania, the personal income tax surcharge imposed last year was allowed to expire.

TAX CHANGES BY TYPE OF TAX

Unlike the past two years when states depended heavily on the major taxes–income and sales–to raise revenue, this year's increases depended less on these taxes. The states raised personal income taxes by $606.8 million and sales taxes by $825.7 million. In combination they account for one-third of the total increase for FY1993. Last year these two taxes represented over 71 percent of the total increase.

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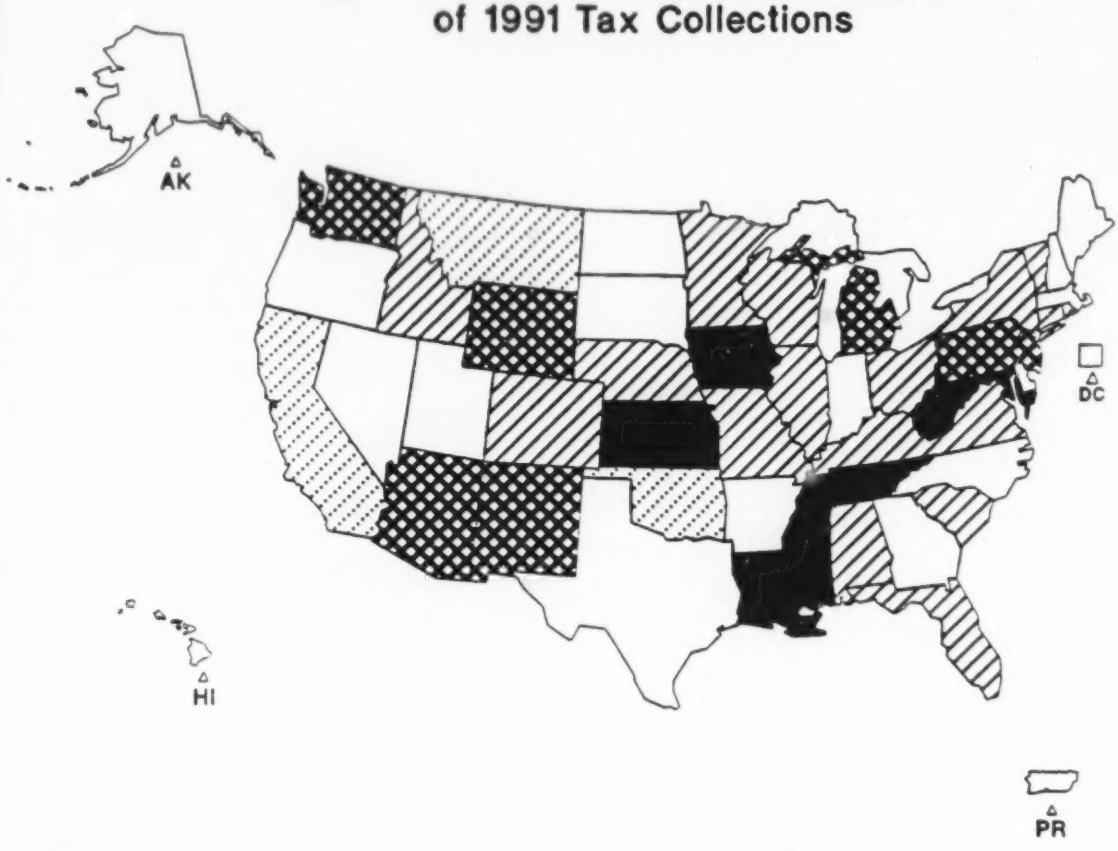
[4] Not reporting were California, Delaware, the District of Columbia, Georgia, and Massachusetts.

Figure 3.
FY1993 Net Tax Changes as a Percentage of 1991 Tax Collections



Source: NCSL survey of legislative fiscal officers, July 1992; U.S. Census Bureau.

The largest source of tax increases for FY1993 are health care related taxes, which total $1.8 billion or 42 percent of the total increase. For the most part, states imposed these taxes to leverage federal Medicaid funds. In several states, the taxes are temporary.

Excise tax increases for FY1993 are relatively minor. The largest category is motor fuel and motor vehicle taxes which were increased by $367.2 million. Cigarette and tobacco taxes account for $136.4 million. Only two states changed their alcoholic beverage taxes and the net change is a decrease of $1 million.

Waste and environmental taxes and fees continue to receive legislative attention and will increase by $99.5 million in FY1993. Waste and environmental fees will account for another $58.3 million.

The amount of revenue coming from miscellaneous taxes is low compared to recent years. For FY1993, these taxes will increase by $190.7 million. That compares to $1.4 billion in FY1992 and $1 billion in FY1991.

NON-TAX REVENUE FOR FY1993

In addition to raising taxes, a number of states also raised fees, accelerated tax collections, or imposed other measures to increase revenue for FY1993. These non-tax sources will raise close to $800 million in FY1993, substantially below the $2.4 billion they raised in FY1992. In combination with the net tax increase of $4.3 billion, the aggregate state revenue increase for FY1993 is $5.1 billion.

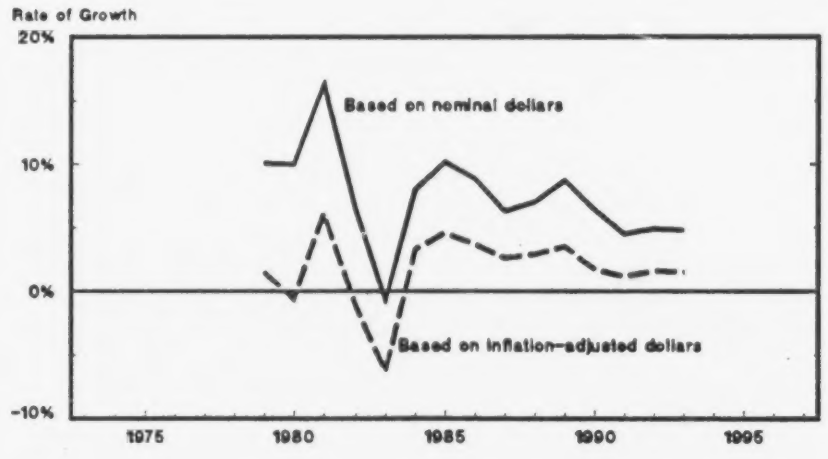
SUMMARY

Despite the level of fiscal problems in the states, it is not surprising that tax increases were relatively small. Because of the sizeable increases enacted in 1990 and 1991 legislative sessions, there was tremendous pressure for lawmakers to avoid additional increases in 1992. A review of past tax activity also demonstrates that tax increases tend to be smaller in election years, a trend that also holds true for 1992.

PART 3: Expenditure Policy

Reporting states intend to hold general fund expenditure growth at 4.8 percent for FY1993, slightly below the growth that occurred in FY1992 and at a relatively low level in comparison to the late 1980s. This reduced level of growth in general fund appropriations continues a trend that began in 1985, as Figure 4 shows. The trend is clear, whether measured in nominal dollars or in real dollars (dollars adjusted for inflation).

Figure 4. Annual Growth of State General Fund Appropriations
As A Percent of Previous Year Appropriations
FY1979 - FY1993



Source: NASBO, NCSL

Table 2 shows that expenditures for significant areas of state spending will continue, as they have in recent years, to grow faster than the general fund overall. This puts pressure on the remaining areas of general fund expenditure, which include economic development, aid to local governments other than for education, environmental concerns, and all health and income maintenance programs other than Medicaid and AFDC. The discussion below on state budget cuts demonstrates some of the effects of the state focus on the expenditure areas detailed in Table 2.

Table 2.
PERCENTAGE INCREASES AND DECREASES IN CATEGORIES OF SPENDING

	FY1992 actual spending compared to FY1991 actual spending	*FY1992 actual spending compared to appropriations for FY1992*	*FY1993 appropriations compared to FY1992 actual spending*
General Fund Total	4.9	1.6	4.8
K-12 Education	5.9*	0.2*	5.5*
Higher Education	3.9*	1.2*	0.2*
Corrections	6.4	- 1.3	5.2
Medicaid	12.0*	7.6*	9.4*
Aid to Families with Dependent Children	9.2	5.7	6.5

*Includes earmarked funding.
Data from 40 states.
Source: NCSL survey of legislative fiscal staff, July 1992.

STATE GENERAL FUND EXPENDITURES IN FY1992

The left-hand column of figures in Table 2 compares states' actual expenditures in FY1992 with their expenditures in FY1991. The center column compares actual FY1992 expenditures with the amounts originally appropriated for FY1992.

The most rapidly growing areas of expenditure over the past year were Medicaid and AFDC. Medicaid expenditures were 12 percent higher in FY1992 than in FY1991, requiring spending to increase over the amount originally appropriated by 7.6 percent. This pattern is typical of recent years. Less typical is the way that AFDC spending grew by 9.2 percent in FY1992, requiring spending to increase 5.7 percent over the original appropriation level, reflecting the recession and the slow national recovery.

Corrections spending presented the surprise of falling below original budget levels for these states. In FY1991, for example, corrections spending jumped 17.6 percent over FY1990

spending. Such figures include capital costs in many states. The slower rate of growth suggests that states have caught up with the demand for prison space.

Spending for education--both K-12 and higher education--was relatively close to budgeted amounts in FY1992, with reported increases over budget of only 0.2 percent for K-12 and 1.2 percent for higher education. Since state funding for education is not driven by entitlements, estimates of future expenditures can be made far more accurately than for AFDC or Medicaid.

STATE GENERAL FUND APPROPRIATIONS FOR FY1993

The right-hand column in Table 2 shows growth in FY1993 appropriation levels over actual spending for FY1992. Growth rates are very similar to those for FY1992: Medicaid gets the biggest share and then AFDC. K-12 education has pushed corrections out of third place, and higher education gets hardly any increase at all.

Higher education's growth rate of 0.2 percent indicates how other areas of the budget are taking precedence. The effect is to reduce spending in real terms, since this amount is well below expected inflation. Apparently the hope of advocates of higher education spending for a reversal of recent years' declining public financial support for higher education have yet to be realized.

The increase for Medicaid is lower than in recent years. But spending for Medicaid is growing faster than spending in any other area, and demands substantially exceeded budgeted amounts in FY1992 just as in every other recent year. The figures in Table 2 include funding from provider taxes--special levies on health care providers which have become a major source of state Medicaid funding in the last three years. Twenty-five of the 40 reporting states will use provider taxes to support Medicaid expenditures in FY1993; 15 percent of their spending will come from such taxes. Use of this funding mechanism varies widely. New York's provider taxes fund about 5 percent of its Medicaid bill, but Tennessee and Alabama will cover about 60 percent of their state share of Medicaid with provider taxes. [NCSL is preparing a separate study of the use of provider taxes for publication in August 1992.]

BUDGET CUTS FOR FY1993

States have also cut budgets vigorously, demonstrating the serioiusness of their fiscal plight. Because of demographic change, the state of the economy, and the costs of health care, much of states budgets is virtually uncontrollage. To manage increasing costs in such areas and to avoid revenue increases, legislatures engaged in substantial budget cuts in 1992. Table 3 shows the kinds of actions that states have taken to reduce costs.

Table 3.
Reductions in State Spending for FY1993

Program	*State*
Aid to Local Governments	AK, AZ, CO, CT, IL, IN, ME, NE
Aid to K-12 Education	AZ, VT, WV
Higher Education	AZ, ME, NY
Number of Employees/ Employee Compensation	AK, CO, KY, ME, NC, NY, OR
Medicaid/Other Health	AK, AZ, IL, ME MD, NY, VA, VT, WA
Other Social Services	CT, IL, NY, VT
Corrections	AK, IN, VA, WA
Broad-based or Across-the-Board Cuts	AK, ID, IN, KY, ME, NC, NE, NJ, NV, PA, VA, WI, WV, WY
Reductions in Retirement Contributions	CO, CT, KY, NJ

Source: NCSL survey of legislative fiscal staff, July 1992

Local Governments. Reductions in aid to local government include reduced municipal revenue sharing in Alaska ($6.8 million), a reduction in the general assistance formula for Connecticut municipalities ($58.2 million), and reduced county aid in Nebraska ($3.5 million). California lawmakers are debating cuts in local aid in the range of $1 billion to $1.4 billion along with authorization for county voters in increase county sales tax rates.

School Districts. Reductions in aid to school districts may be part of a budget solution in California, still pending at the writing of this report. Governor Pete Wilson has proposed a cut of $1.1 billion. Examples of other states cuts in K-12: Arizona–$15 million, Connecticut,–$162 million, Vermont–$6 million, and West Virginia–1 percent. New Jersey's package of $1.1 billion in FY1993 reductions has not included cuts in aid to education.

Personnel Costs. Among reductions that directly affect personnel costs, the most dramatic are in New Jersey and Oregon. The legislature targeted much of New Jersey's $421 million in cuts to state agencies at mid-level managerial positions, intending to terminate about 1,200 positions whose occupants make over $50,000 a year. The executive branch has contended that the legislature miscalculated and that as many as 6,300 layoffs will be necessary. Oregon's governor has been instructed to cut 4,000 state positions as the state prepares to increase aid to school districts in response to a constitutional amendment to limit property taxes.

Property Tax Relief. Reductions in local property tax relief programs include $130 million from Indiana's property tax replacement credit and $385 million in New Jersey's property tax relief program.

CONCLUSION

The fiscal health of the states is not good and the outlook for immediate improvement is not promising. The rising unemployment rate indicates a strong national economic recovery may still be many months away. State fund balances have been driven far below a recommended level of 5 percent to only 1.4 percent of general funds at the end of FY 1992. Sluggish revenue collections are in part to blame for the drop in fund balances but higher than expected costs in K-12 education, AFDC and Medicaid are also culprits. The one bright light on the fiscal horizon for the states is the slowdown in corrections spending.

State revenues will grow by 7.1 percent in FY 1993, but only due to tax law changes and inflation. Economic recovery is not being counted on by state revenue forecasters to fuel funding requirements.

Medicaid and AFDC will continue to consume a larger and larger percentage of state budgets and K-12 education spending needs will be a major problem in many states due to a rising school age population and school finance formula requirements.

Legislatures will attempt to address the plethora of fiscal problems confronting them by cutting programs where they can, reorganizing and reprioritizing services and making marginal adjustments in tax codes while trying to avoid large general tax increases.

Like last year, the states have enacted austere budgets that could easily come unglued if the economy falters further, or if federal mandates or other external forces drive health and welfare spending beyond budgeted levels.